

**CITY OF FAIRWAY, KANSAS**  
BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008

# CITY OF FAIRWAY, KANSAS

## TABLE OF CONTENTS

---

	<u>Page</u>
<b>Independent Auditor's Report</b>	1-2
<b>Basic Financial Statements:</b>	
Government-wide Financial Statements:	
Statement of Net Assets	3
Statement of Activities	4
Fund Financial Statements:	
Balance Sheet – Governmental Funds	5
Reconciliation of the Balance Sheet to the Statement of Net Assets - Governmental Funds	6
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Notes to the Basic Financial Statements	9-20
<b>Required Supplementary Information:</b>	
Budgetary Comparison Schedule – General Fund	21
Notes to Required Supplementary Information	22
<b>Combining and Individual Fund Statements and Schedules:</b>	
Combining Balance Sheet – Non-major Governmental Funds	23
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-major Governmental Funds	24
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
Special Highway Fund	25
Alcohol and Drug Safety Action Fund	26
Storm Water Utility Fund	27
L.A.L. Special Parks and Recreation Fund	28
Debt Service Fund	29

**INDEPENDENT AUDITOR'S REPORT**

The Honorable Mayor and Members  
of the City Council  
City of Fairway, Kansas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Fairway, Kansas (the City), as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the applicable provisions of the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Fairway, Kansas as of December 31, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The City has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

The budgetary comparison information on pages 21 and 22 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund statements and schedules as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Cudney, Seard, McEneaney & Mullaney*

June 10, 2009

## **Basic Financial Statements**

**City of Fairway, Kansas**

Statement of Net Assets

December 31, 2008

	<b>Governmental Activities</b>
<b>Assets</b>	
Deposits and investments	\$ 3,113,853
Receivables (net of allowance for uncollectibles):	
Property tax	975,005
Sales and other taxes	225,181
Intergovernmental	374,491
Prepaid items	18,111
Bond issue costs	68,691
Capital assets:	
Land and construction in progress	5,924,644
Other capital assets, net of depreciation	14,515,537
Total assets	<u>\$ 25,215,513</u>
<b>Liabilities</b>	
Accounts and retainage payable	913,027
Accrued payroll and related liabilities	74,943
Unearned revenue	975,005
Accrued interest payable	129,238
Long-term liabilities:	
Due within one year	5,435,205
Due in more than one year	4,358,333
Total liabilities	<u>11,885,751</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	11,991,216
Restricted for:	
Capital projects	372,939
Other purposes	249,612
Unrestricted	715,995
Total net assets	<u><u>\$ 13,329,762</u></u>

See accompanying notes to the basic financial statements

**City of Fairway, Kansas**  
Statement of Activities  
For the year ended December 31, 2008

<u>Functions/Programs</u>	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General administration	\$ 1,265,245	\$ 238,967	\$ -	\$ -	\$ (1,026,278)
Public safety	973,143	380,034	247	-	(592,862)
Municipal court	182,649	-	-	-	(182,649)
Public works	1,547,562	-	105,620	2,628,197	1,186,255
Parks and recreation	373,302	136,665	15,701	-	(220,936)
Interest and fiscal charges	320,330	-	-	-	(320,330)
Total primary government	<u>\$ 4,662,231</u>	<u>\$ 755,666</u>	<u>\$ 121,568</u>	<u>\$ 2,628,197</u>	<u>(1,156,800)</u>

General revenues:

Taxes:

Property taxes, levied for general purposes	1,116,976
Property taxes, levied for debt service	81,483
Sales taxes	982,844
Franchise taxes	374,599
Intergovernmental not restricted to a specific program	15,701
Unrestricted investment earnings	89,055
Miscellaneous	60,962
Total general revenue	<u>2,721,620</u>
Change in net assets	1,564,820
Net assets-beginning of year	11,764,942
Net assets-end of year	<u>\$ 13,329,762</u>

**City of Fairway, Kansas**

Balance Sheet

Governmental Funds

December 31, 2008

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>					
Deposits and investments	\$ 842,314	\$ 23,029	\$ 2,023,218	\$ 225,292	\$ 3,113,853
Receivables (net of allowance for uncollectibles):					
Property tax	444,609	530,396	-	-	975,005
Sales and other taxes	225,181	-	-	-	225,181
Intergovernmental	-	-	349,361	25,130	374,491
Due from other funds	-	-	9,897	-	9,897
Prepaid items	18,111	-	-	-	18,111
<b>Total assets</b>	<u>\$ 1,530,215</u>	<u>\$ 553,425</u>	<u>\$ 2,382,476</u>	<u>\$ 250,422</u>	<u>\$ 4,716,538</u>
<b>Liabilities:</b>					
Accounts and retainage payable	\$ 208,716	\$ -	\$ 703,501	\$ 810	\$ 913,027
Accrued payroll	74,943	-	-	-	74,943
Due to other funds	9,897	-	-	-	9,897
Deferred revenue	444,609	530,396	-	-	975,005
<b>Total liabilities</b>	<u>738,165</u>	<u>530,396</u>	<u>703,501</u>	<u>810</u>	<u>1,972,872</u>
<b>Fund balances:</b>					
Reserved for prepaid items	18,111	-	-	-	18,111
Reserved for debt service	-	23,029	-	-	23,029
<b>Unreserved:</b>					
Designated for subsequent year's expenditures -					
General fund	773,939	-	-	-	773,939
Non-major special revenue funds	-	-	-	185,965	185,965
Designated for capital improvements	-	-	1,678,975	-	1,678,975
Undesignated reported in non-major funds	-	-	-	63,647	63,647
<b>Total fund balances</b>	<u>792,050</u>	<u>23,029</u>	<u>1,678,975</u>	<u>249,612</u>	<u>2,743,666</u>
<b>Total liabilities and fund balances</b>	<u>\$ 1,530,215</u>	<u>\$ 553,425</u>	<u>\$ 2,382,476</u>	<u>\$ 250,422</u>	<u>\$ 4,716,538</u>

See accompanying notes to the basic financial statements



**City of Fairway, Kansas**  
Reconciliation of the Balance Sheet to the Statement of Net Assets  
Governmental Funds  
December 31, 2008

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Ending fund balances - total governmental funds	\$ 2,743,666
Governmental funds report capital outlays as expenditures. However, in the Statement of Net Assets the cost of those assets is capitalized and shown at cost, net of accumulated depreciation. This is the amount of net capital assets reported in the Statement of Net Assets.	20,440,181
Long-term liabilities are not due and payable in the current period and, accordingly, are not reported as liabilities within the fund financial statements. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Discounts, premiums and bond issuance costs are reported in the governmental fund financial statements when the debt was issued, whereas these amounts are deferred and amortized over the life of the debt in the government-wide financial statements. Balances as of December 31, 2008 are:	
Bond issuance costs, net	68,691
Accrued interest payable	(129,238)
Long-term liabilities	<u>(9,793,538)</u>
Total net assets of governmental activities	<u><u>\$ 13,329,762</u></u>

**City of Fairway, Kansas**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the year ended December 31, 2008

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Ad valorem taxes	\$ 990,605	\$ 81,483	\$ -	\$ 126,371	\$ 1,198,459
Sales tax	982,844	-	-	-	982,844
Special assessments	174,139	-	-	-	174,139
Intergovernmental	42,407	-	1,646,790	121,568	1,810,765
Licenses, permits and fees	62,310	-	-	-	62,310
Franchise taxes	374,599	-	-	-	374,599
Charges for services	139,183	-	-	-	139,183
Fines, forfeitures and penalties	373,234	-	-	6,800	380,034
Use of money and property	38,113	-	50,942	-	89,055
Miscellaneous	60,962	-	-	-	60,962
Total revenues	<u>3,238,396</u>	<u>81,483</u>	<u>1,697,732</u>	<u>254,739</u>	<u>5,272,350</u>
<b>Expenditures:</b>					
Current:					
General administration	1,262,239	-	-	-	1,262,239
Public safety	947,629	-	-	8,697	956,326
Municipal court	181,365	-	-	-	181,365
Public works	607,854	-	-	20,416	628,270
Parks and recreation	351,825	-	-	47,000	398,825
Capital outlay	-	-	6,592,492	-	6,592,492
Debt service:					
Principal retirements	-	75,000	205,000	-	280,000
Interest and fiscal charges	-	209,765	116,926	-	326,691
Total expenditures	<u>3,350,912</u>	<u>284,765</u>	<u>6,914,418</u>	<u>76,113</u>	<u>10,626,208</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(112,516)</u>	<u>(203,282)</u>	<u>(5,216,686)</u>	<u>178,626</u>	<u>(5,353,858)</u>
Other financing sources (uses):					
Issuance of debt	-	-	4,500,000	-	4,500,000
Proceeds from capital lease	-	-	35,000	-	35,000
Transfers in	-	195,300	277,814	-	473,114
Transfers out	(182,765)	-	(195,300)	(95,049)	(473,114)
Total other financing sources (uses)	<u>(182,765)</u>	<u>195,300</u>	<u>4,617,514</u>	<u>(95,049)</u>	<u>4,535,000</u>
Net change in fund balances	(295,281)	(7,982)	(599,172)	83,577	(818,858)
Fund balances, beginning of year	<u>1,087,331</u>	<u>31,011</u>	<u>2,278,147</u>	<u>166,035</u>	<u>3,562,524</u>
Fund balances, end of year	<u>\$ 792,050</u>	<u>\$ 23,029</u>	<u>\$ 1,678,975</u>	<u>\$ 249,612</u>	<u>\$ 2,743,666</u>

See accompanying notes to the basic financial statements

**City of Fairway, Kansas**  
Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances of  
Governmental Funds to the Statement of Activities  
For the year ended December 31, 2008

Amounts reported for governmental activities in the Statement of Activities are different because:

Net changes in fund balances - total governmental funds	\$ (818,858)
Governmental funds report capital outlays as expenditures in the year acquired. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital additions exceeded depreciation in the current period.	
Capital additions	6,571,935
Depreciation expense	(894,622)
Contributions of infrastructure assets are reported as capital contributions in the statement of activities.	954,701
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. These amounts are the effect of these differences in the treatment of long-term debt and related items.	
Proceeds from issuance of debt	(4,500,000)
Proceeds from capital lease	(35,000)
Principal payments	280,000
Accrued interest expense	(43,041)
Bond issuance costs, net	49,402
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Change in compensated absences	<u>303</u>
Total changes in net assets of governmental activities	<u><u>\$ 1,564,820</u></u>

**Notes to the  
Basic  
Financial Statements**

**City of Fairway, Kansas**  
**Notes to the Basic Financial Statements**  
**December 31, 2008**

**Note 1: Summary of Significant Accounting Policies**

The City of Fairway, Kansas (the City), was incorporated in 1949 as a City of the second class. The City operates under a Mayor-Council form of government and provides the following services as authorized by its charter: public safety (police), street maintenance, solid waste removal, culture and recreation, public improvements, and general administrative services.

The accounting and reporting policies of the City of Fairway, Kansas conform to accounting principles generally accepted in the United States of America. The more significant accounting and reporting policies and practices employed by the City are as follows:

**A. Reporting Entity**

Generally accepted accounting principles require that the basic financial statements present the City (the primary government) and its component units. Component units are required to be included in the City's reporting entity because of the significance of their operational or financial relationships with the City. Based on the evaluation criteria, there are no component units related to the City, which should be accounted for in the basic financial statements.

**B. Basis of Presentation**

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds).

**Government-wide Financial Statements**

The Statement of Net Assets and the Statement of Activities display information about the City, the primary government, as a whole. Governmental activities are generally financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The government-wide Statement of Activities presents a comparison between expenses and program revenues for each program of the governmental activities. Expenses are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the City.

The City's net assets are reported in three parts—invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

**Fund Financial Statements**

Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is

**City of Fairway, Kansas**  
**Notes to the Basic Financial Statements**  
**December 31, 2008**

presented in a separate column. Non-major funds are aggregated and presented in a single column.

The major governmental funds of the City are described below:

General Fund - is the main operating fund of the City which accounts for all financial transactions not accounted for in other funds. The general operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are financed through revenues received by the General Fund.

Capital Projects Fund - is used to account for all resources derived from bond proceeds, grants and contributions from outside agencies used to finance major capital improvements in the City.

Debt Service Fund - is used to account for resources to be used for the payment of principal, interest and related costs of the general obligation bonds and certain other long-term obligations of the City.

**C. Measurement Focus and Basis of Accounting**

**Government-wide Financial Statements**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, sales tax, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, the governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**Governmental Fund Financial Statements**

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

**Revenue Recognition**

In applying the susceptible to accrual concept under the modified accrual basis, certain revenue sources are deemed both measurable and available (collectible within the current year or within two months of year-end and available to pay obligations of the current period). This includes investment earnings and state-levied locally shared taxes (including motor fuel taxes). Reimbursements due for federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made.

**City of Fairway, Kansas**  
**Notes to the Basic Financial Statements**  
**December 31, 2008**

Property taxes, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, property taxes receivable are recorded and deferred until they become available.

Other revenues, including licenses and permits, certain charges for services, and miscellaneous revenues, are recorded as revenue when received in cash because they are generally not measurable until actually received.

**Expenditure Recognition**

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on long-term debt, which have not matured are recognized when due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

**Budgetary Basis Accounting and Information**

Kansas statutes require that an annual operating budget be legally adopted for the General Fund, Special Revenue Funds (unless specially exempted by statute), and the Debt Service Fund. An annual operating budget is not required for the Alcohol and Drug Action special revenue fund under the statutory exemption. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

- (1) Preparation of the budget for the succeeding calendar year on or before August 1<sup>st</sup>.
- (2) Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5<sup>th</sup>.
- (3) Public hearing on or before August 15<sup>th</sup>, but at least ten days after publication of notice of hearing.
- (4) Adoption of the final budget on or before August 25<sup>th</sup>.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at any time. There were no budget amendments in 2008.

The statutes establish the overall budget level of control at the fund level by prohibiting expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Management may not amend a fund's budgeted expenditures without Council approval. Spending in funds that are not subject to the legal annual operating budget requirement are controlled by federal regulations, other statutes, or by the use of internal spending limits established by the City.

All legal annual operating budgets are prepared using the modified accrual basis of accounting, modified further by the encumbrance method of accounting. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the City for future payments such as purchase orders or contracts.

**City of Fairway, Kansas**  
**Notes to the Basic Financial Statements**  
**December 31, 2008**

**Property Taxes Receivable**

In accordance with governing state statutes, property taxes levied during the current year are revenue sources to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year basis and are levied and become a lien on the property on November 1 of each year. The County Treasurer is the tax collection agent for all taxing entities within the County. Property owners have the option of paying one-half or the full amount of the taxes levied on or before December 20 during the year levied with the balance to be paid on or before May 10 of the ensuing year. State statutes prohibit the County Treasurer from distributing taxes collected in the year levied prior to January 1 of the ensuing year. Consequently, for revenue recognition purposes, the taxes levied during the current year are not due and receivable until the ensuing year. At December 31, such taxes are recorded as taxes receivable with a corresponding amount recorded as deferred revenues on the balance sheets of the appropriate funds. It is not practical to apportion delinquent taxes held by the County Treasurer as of December 31, 2008. Estimated delinquencies are insignificant and have not been recorded.

**Deposits and Investments**

The disclosures that follow have been prepared in accordance with the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement establishes disclosure requirements for investment and deposit risks related to credit risk, concentrations of credit risk, interest rate risk, and foreign currency risk.

The City pools temporarily idle cash from all funds for investments purposes. Each fund's portion of the pool is shown on the financial statements as deposits and investments. Deposits during the year included cash in interest bearing and demand bank accounts, and certificates of deposit. Interest is allocated to each fund based on the respective invested balance.

A summary of the carrying values of deposits, certificates of deposit and petty cash at December 31, 2008 is as follows:

Total deposits	\$ 2,207,812
Certificates of deposit	905,872
Petty cash	169
	<u>\$ 3,113,853</u>

**Investment Policies**

State statues limit the types of investments the City may utilize. Allowable investments generally include United States Treasury bills or notes with maturities not exceeding two years, repurchase agreements and the Kansas State Municipal Investment Pool. In addition, bond proceeds may be invested in United States government agency securities, money market mutual funds that invest in United States government or agency securities and certain Kansas municipal obligations.



**City of Fairway, Kansas**  
**Notes to the Basic Financial Statements**  
**December 31, 2008**

**Custodial Credit Risk**

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. For deposits, the City follows state statutes which require pledged collateral with a fair value equal to 100% of the funds on deposit, less insured amounts, and that the collateral be held in safekeeping in the City's name at other than the depository financial institution.

At December 31, 2008, the City's deposits were covered by Federal depository insurance or were fully collateralized by securities held by the City's agent in the City's name.

**Interest Rate Risk**

As a means of managing its exposure to fair value losses arising from increasing interest rates, the City follows state statutes which generally limit investment maturities to two years. To minimize the risk of loss, the City matches investments to anticipated cash flows and diversifies the investment types to the extent practicable.

**Prepaid items**

Certain payments that reflect costs applicable to future accounting periods have been recorded as prepaid items in both the government-wide and fund financial statements.

**Capital Assets**

Capital assets, which include property, equipment, and infrastructure assets (i.e. roads, storm sewers, etc.), are reported in the applicable governmental activities column in the government-wide financial statements. In the governmental fund statements, capital assets are charged to expenditures as purchased. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at estimated fair value as of the date of the donation.

Capital assets are defined by the City as assets with an initial individual cost of \$1,000 or more and a useful life greater than one year. Additions or improvements and other capital outlays that significantly extend the useful life of an asset, or that significantly increase the capacity of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Assets, which have been acquired with funds received through federal grants, must be used in accordance with the terms of the grant.

**City of Fairway, Kansas**  
**Notes to the Basic Financial Statements**  
**December 31, 2008**

Depreciation on exhaustible assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Assets and is provided on the straight-line basis over the following estimated useful lives:

Buildings	20 years
Improvements other than buildings	7-30 years
Equipment	5-20 years
Infrastructure	10-50 years

Fully depreciated capital assets are included in the capital asset accounts until their disposal.

**Compensated Absences**

City employees earn vacation time in varying amounts based upon their length of service. The City's policies allow up to 40 hours of vacation leave and all unused compensatory time to be carried over into the next year. This carry forward is payable upon separation from service. The liability of \$38,538 for vacation leave at December 31, 2008 is reported in the government-wide financial statements, but not in the governmental fund financial statements as it is not estimated to be payable from expendable available resources.

In lieu of sick time, employees are allowed to receive a salary continuation for up to ten days per illness upon approval of their supervisor. The salary continuation period may be extended upon approval by the Mayor and the City Council.

**Reserves and Designations of Fund Balances**

Reserves are reported in the various funds in the fund financial statements to indicate that a portion of the fund balance is restricted by law or contract for a specific purpose. The amount of unreserved fund balance designated for subsequent year's expenditures represents the amount of fund balance available for appropriation that has been designated for the adopted 2009 budget.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**City of Fairway, Kansas**  
**Notes to the Basic Financial Statements**  
**December 31, 2008**

**Note 2: Capital Assets**

A summary of changes in capital assets for the year follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,877,047	\$ 142,333	\$ -	\$ 3,019,380
Construction in progress	2,586,094	2,723,283	2,404,113	2,905,264
Total capital assets not being depreciated	5,463,141	2,865,616	2,404,113	5,924,644
Capital assets being depreciated:				
Buildings	472,383	-	-	472,383
Improvements other than buildings	799,343	486,419	-	1,285,762
Equipment	1,248,928	476,073	213,513	1,511,488
Infrastructure	13,085,954	6,126,665	-	19,212,619
Total capital assets being depreciated	15,606,608	7,089,157	213,513	22,482,252
Less accumulated depreciation for:				
Buildings	365,650	16,226	-	381,876
Improvements other than buildings	480,435	45,990	-	526,425
Equipment	935,027	88,617	189,489	834,155
Infrastructure	5,480,470	743,789	-	6,224,259
Total accumulated depreciation	7,261,582	\$ 894,622	\$ 189,489	7,966,715
Total capital assets being depreciated, net	8,345,026			14,515,537
Governmental activity capital assets, net	<u>\$ 13,808,167</u>			<u>\$ 20,440,181</u>

Depreciation expense was charged to the functions/programs of the City government as follows:

General administration	\$ 19,772
Public safety	55,695
Public works	768,570
Parks and recreation	50,585
Total depreciation expense	<u>\$ 894,622</u>

**City of Fairway, Kansas**  
**Notes to the Basic Financial Statements**  
**December 31, 2008**

**Note 3: Special Assessments**

Special assessment taxes consist of charges to the City's residents for trash and recycling services and are due and payable with annual ad valorem property taxes.

**Note 4: Long-term Debt**

The following is a summary of changes in long-term debt for the year ended December 31, 2008:

	Balance January 1, 2008	Increases	Decreases	Balance December 31, 2008	Amounts Due Within One Year
General obligation bonds	\$ 500,000	\$ 4,500,000	\$ 280,000	\$ 4,720,000	\$ 385,000
General obligation notes	5,000,000	-	-	5,000,000	5,000,000
Capital lease	-	35,000	-	35,000	11,667
Compensated absences*	38,841	95,976	96,279	38,538	38,538
Total governmental activity debt	<u>\$ 5,538,841</u>	<u>\$ 4,630,976</u>	<u>\$ 376,279</u>	<u>\$ 9,793,538</u>	<u>\$ 5,435,205</u>

\* Compensated absences typically have been liquidated in the General Fund

General obligation bonds outstanding at December 31, 2008 are as follows:

	Date Issued	Interest Rates	Original Amount	Maturity Date	Outstanding December 31, 2008
Internal improvements:					
Series 2003 Refunding	5/15/03	2 - 3.3%	\$ 770,000	9/1/13	\$ 425,000
Series 2008 A	2/15/08	2 - 3.75%	2,900,000	9/1/22	2,695,000
Series 2008 B	10/15/08	3.5 - 4.5%	1,600,000	9/1/21	1,600,000
			<u>\$ 5,270,000</u>		<u>\$ 4,720,000</u>

On February 15, 2008, the City issued \$2,900,000 of Series 2008 A General Obligation Bonds to finance various street improvements. The bonds are payable in varying annual installments through 2022 and have interest rates ranging from 2% to 3.75%

On October 15, 2008, the City issued \$1,600,000 of Series 2008 B General Obligation Bonds to finish, furnish and equip new City Hall office space and to remodel the former City Hall as a public safety building. The bonds are payable in varying annual installments through 2021 and have interest rates ranging from 3.5% to 4.5%.

**City of Fairway, Kansas**  
**Notes to the Basic Financial Statements**  
**December 31, 2008**

The annual debt service requirements to amortize the general obligation bonds outstanding as of December 31, 2008 are as follows:

Year	Principal	Interest	Total
2009	\$ 385,000	\$ 151,572	\$ 536,572
2010	395,000	149,038	544,038
2011	405,000	137,826	542,826
2012	415,000	125,768	540,768
2013	365,000	112,928	477,928
2014 - 2018	1,490,000	410,504	1,900,504
2019 - 2022	1,265,000	116,539	1,381,539
Total	<u>\$ 4,720,000</u>	<u>\$ 1,204,175</u>	<u>\$ 5,924,175</u>

In 2006, the City issued \$4,470,000 General Obligation Temporary Notes, Series 2006-1, dated August 1, 2006, due in full on February 1, 2009. Interest is payable semi-annually on February 1 and August 1 at 3.8%.

In 2006, the City issued \$530,000 General Obligation Temporary Notes, Series 2006-2, dated December 15, 2006, due in full on February 1, 2009. Interest is payable semi-annually on February 1 and August 1 at 4.8%

The annual debt service requirements to amortize the general obligation notes outstanding as of December 31, 2008 are as follows:

Year	Principal	Interest	Total
2009	<u>\$ 5,000,000</u>	<u>\$ 97,650</u>	<u>\$ 5,097,650</u>

The City has entered into a capital lease to finance the purchase of tennis court lights with a cost of \$40,200 at 5.45%. Payments are due in annual installments through 2011. The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2008 are as follows:

2009	\$ 12,995
2010	12,995
2011	12,995
	<u>38,985</u>
Less imputed interest	<u>(3,985)</u>
Present value of minimum lease payments	<u>\$ 35,000</u>

Legal Debt Margin

The City is subject to state statutes, which limit the amount of bonded debt (exclusive of revenue bonds, bonds issued for storm drainage and sanitary sewer improvements, and refunding bonds) that the City may issue to 30% of assessed valuation. Currently the City has a debt limit of \$22,941,566 leaving a debt margin of \$13,221,566.

**City of Fairway, Kansas**  
**Notes to the Basic Financial Statements**  
**December 31, 2008**

**Note 5: Pension Plans**

Defined Benefit Plans

Plan Description – The City participates in the Kansas Public Employees Retirement System (KPERS) and the Kansas Police and Firemen's Retirement System (KP&F). Both are part of a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS and KP&F provide retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS and KP&F issue a single available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas Avenue, Suite 100; Topeka, KS 66603-3803) or by calling 1-888-275-5737.

Funding Policy – K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. K.S.A. 74-4975 establishes the KP&F member-employee contribution rate at 7% of covered salary. The employer collects and remits member-employee contributions according to the provision of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS and KP&F are funded on an actuarial reserve basis. State law sets a limitation on annual increases in the employer contribution rates. The KPERS employer rate established by statute for calendar year 2008 is 5.93%. The City's employer contributions to KPERS for the years ended December 31, 2008, 2007, and 2006 were \$21,493, \$14,530 and \$17,104, respectively, equal to the statutory required contributions for each year. The KP&F uniform participating employer rate established for fiscal year 2008 is 13.88%. Employers participating in KP&F also make contributions to amortize the liability for past service costs, if any, which is determined separately for each participating employer. The City's contributions to KP&F for the years ended December 31, 2008, 2007, and 2006 were \$85,287, \$80,635 and \$69,573, respectively, equal to the statutory required contributions for each year.

Defined Contribution Plan

The City has established a defined contribution plan for those full-time employees eligible for the KPERS program. The plan is administered by Ing Life Insurance and Annuity Company, and any changes to the plan's provisions or the contributions requirements are determined by the governing body of the City. The contribution percentage are determined annually and for 2008 was 4%. The contributions by the City and employees for 2008 were \$28,432 and \$45,565 respectively.

**City of Fairway, Kansas**  
**Notes to the Basic Financial Statements**  
**December 31, 2008**

**Note 6: Interfund Transfers**

Interfund transfers for the year ended December 31, 2008 are as follows:

	Transfers In	Transfers Out
General fund	\$ -	\$ 182,765
Debt service fund	195,300	-
Capital projects fund	277,814	195,300
Special highway fund	-	95,049
	<u>\$ 473,114</u>	<u>\$ 473,114</u>

Transfers are used to (1) move revenues from the fund that a statute or the budget requires to collect them to the fund that a statute or the budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Any transfers within the governmental funds have been eliminated in the government-wide Statement of Activities.

**Note 7: Commitments and Contingencies**

Litigation

Various legal actions and claims against the City are currently pending. The ultimate liability that might result from their resolution is not presently determinable; however, in the opinion of management and counsel, the probability of material aggregate liabilities resulting from these claims is remote.

Operating Lease

In 2008, the City entered in an operating lease agreement for City Hall office space. The lease began September 15, 2008 and has an initial term of seven years, with an option to renew for an additional five years. For 2008, the lease expenditures under this lease, as well as those for temporary space were \$41,187. The future minimum rental payments are as follows:

2009	\$ 77,768
2010	79,712
2011	81,705
2012	83,748
2013	85,842
2014	87,988
2015	63,355
	<u>\$ 560,118</u>

**City of Fairway, Kansas**  
**Notes to the Basic Financial Statements**  
**December 31, 2008**

Sales Tax Reimbursement Agreement

In 2008, the City agreed to reimburse a portion of the sales tax generated by a business relocating to the City in order to assist it in offsetting a portion of its cost of renovating and equipping the new location. The agreement became effective for sales tax collected on May 1, 2008, and limits the reimbursement to a maximum of \$200,000 over its five year term, payable solely from the additional sales tax generated by the taxpayer.

Commitments

Capital project often extend over several years. The City has made normal commitments for future expenditures related to capital project programs. Project authorizations and expenditures since the inception of each project are as follows:

<u>Project Category</u>	<u>Authorization</u>	<u>Obligations Since Inception</u>
Windsor Lane Culvert	\$ 2,413,566	\$ 2,332,247

**Note 8: Risk Management**

The City is exposed to various risks of loss related to torts, loss and damage to property, errors and omissions and injuries to employees. The City currently purchases commercial insurance coverage for these risks. There have been no significant changes in coverages from the previous years. Settled claims have not exceeded the commercial insurance coverage in any of the past three years.

The City obtains workers' compensation insurance through its membership in the Kansas Eastern Region Insurance Trust (KERIT), whose members consist of local cities and counties. KERIT is a risk-sharing pool organized under the insurance laws of the State of Kansas, which self-insures workers' compensation and other related expenses up to certain limits and reinsures additional excess amounts up to certain limits. The City pays annual premiums to the Trust based upon historical experience and legal requirements mandated by the State of Kansas. The trust agreement allows for member assessments in the event claims and expenses exceed the Trust's self-insured retention limit. The City does not anticipate any additional assessments in excess of premiums paid as a result of their participation in the Trust.

**Note 9: Future Pronouncements**

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits other than Pensions*. This statement establishes accounting and financial reporting standards for employers that participate in a defined benefit "other post employment benefit" (OPEB) plan. The City does not anticipate that the impact of adopting Statement No. 45 will materially affect the comparability of the City's financial statements. The City will implement this statement in accordance with the transition provisions of the Statement on January 1, 2009.



**Required  
Supplementary  
Information**

## City of Fairway, Kansas

Required Supplementary Information  
Budgetary Comparison Schedule - General Fund  
(Non-GAAP Basis)  
For the year ended December 31, 2008

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 1,000,697	\$ 1,000,697	\$ 990,605	\$ (10,092)
Sales tax	950,000	950,000	982,844	32,844
Special assessments	184,407	184,407	174,139	(10,268)
Intergovernmental	9,000	9,000	42,407	33,407
Licenses, permits and fees	43,954	43,954	62,310	18,356
Franchise taxes	280,000	280,000	374,599	94,599
Charges for services	113,000	113,000	139,183	26,183
Fines, forfeitures and penalties	275,560	275,560	373,234	97,674
Use of money and property	50,000	50,000	38,113	(11,887)
Miscellaneous	1,000	1,000	60,962	59,962
Total revenues	<u>2,907,618</u>	<u>2,907,618</u>	<u>3,238,396</u>	<u>330,778</u>
Expenditures:				
Current:				
General administration	1,409,091	1,409,091	1,262,239	146,852
Public safety	966,063	966,063	947,629	18,434
Municipal court	205,886	205,886	181,365	24,521
Public works	798,837	798,837	607,854	190,983
Parks and recreation	325,515	325,515	351,825	(26,310)
Total expenditures	<u>3,705,392</u>	<u>3,705,392</u>	<u>3,350,912</u>	<u>354,480</u>
Excess (deficiency) of revenues over (under) expenditures	(797,774)	(797,774)	(112,516)	685,258
Other financing uses:				
Transfers out	-	-	(182,765)	(182,765)
Net change in fund balances	(797,774)	(797,774)	(295,281)	<u>\$ 502,493</u>
Fund balance, beginning of year	<u>797,774</u>	<u>797,774</u>	<u>1,087,331</u>	
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 792,050</u>	

**City of Fairway, Kansas**  
Notes to Required Supplementary Information  
December 31, 2008

Required supplementary information includes financial information and disclosures that are required by GASB but are not considered a part of the basic financial statements. This information includes the Budgetary Comparison Schedule – General Fund.

*Budgetary Data*

The City utilizes encumbrances for budgetary reporting purposes. Encumbrances relating to certain contractual agreements, supplies and equipment that have been ordered but not received are reported in the year the commitment arises for budgetary reporting purposes. However, for financial reporting purposes, the goods or services are reported when they are received. All unencumbered appropriations lapse at year-end.

**Combining and  
Individual Fund  
Statements  
and  
Schedules**

**City of Fairway, Kansas**  
Combining Balance Sheet  
Non-major Governmental Funds  
December 31, 2008

	<b>Special Highway</b>	<b>Alcohol and Drug Safety Action</b>	<b>Storm Water Utility</b>	<b>L.A.L. Park</b>	<b>Drug Tax</b>	<b>Totals</b>
<b>Assets:</b>						
Deposits and investments	\$ 26,076	\$ 2,636	\$ 178,745	\$ 13,440	\$ 4,395	\$ 225,292
Receivables, net :						
Intergovernmental	25,130	-	-	-	-	25,130
<b>Total assets</b>	<u><u>\$ 51,206</u></u>	<u><u>\$ 2,636</u></u>	<u><u>\$ 178,745</u></u>	<u><u>\$ 13,440</u></u>	<u><u>\$ 4,395</u></u>	<u><u>\$ 250,422</u></u>
 <b>Liabilities - accounts payable</b>	 <u>\$ -</u>	 <u>\$ 810</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 810</u>
<b>Fund balances:</b>						
Unreserved:						
Designated for subsequent year's expenditures	-	1,826	175,139	9,000	-	185,965
Undesignated	51,206	-	3,606	4,440	4,395	63,647
<b>Total fund balances</b>	<u>51,206</u>	<u>1,826</u>	<u>178,745</u>	<u>13,440</u>	<u>4,395</u>	<u>249,612</u>
<b>Total liabilities and fund balances</b>	<u><u>\$ 51,206</u></u>	<u><u>\$ 2,636</u></u>	<u><u>\$ 178,745</u></u>	<u><u>\$ 13,440</u></u>	<u><u>\$ 4,395</u></u>	<u><u>\$ 250,422</u></u>

**City of Fairway, Kansas**  
Combining Statement of Revenues, Expenditures  
and Changes in Fund Balances - Non-major Governmental Funds  
For the year ended December 31, 2008

	Special Highway	Alcohol and Drug Safety Action	Storm Water Utility	L.A.L. Park	Drug Tax	Totals
Revenues:						
Ad valorem taxes	\$ -	\$ -	\$ 126,371	\$ -	\$ -	\$ 126,371
Intergovernmental	105,620	-	-	15,701	247	121,568
Fines, forfeitures and penalties	-	6,800	-	-	-	6,800
Total revenues	<u>105,620</u>	<u>6,800</u>	<u>126,371</u>	<u>15,701</u>	<u>247</u>	<u>254,739</u>
Expenditures:						
Parks and recreation	-	-	-	47,000	-	47,000
Public safety	-	8,697	-	-	-	8,697
Public works	20,416	-	-	-	-	20,416
Total expenditures	<u>20,416</u>	<u>8,697</u>	<u>-</u>	<u>47,000</u>	<u>-</u>	<u>76,113</u>
Excess (deficiency) of revenues over (under) expenditures	85,204	(1,897)	126,371	(31,299)	247	178,626
Other financing uses:						
Transfers out	(95,049)	-	-	-	-	(95,049)
Net change in fund balances	<u>(9,845)</u>	<u>(1,897)</u>	<u>126,371</u>	<u>(31,299)</u>	<u>247</u>	<u>83,577</u>
Fund balance, beginning of year	<u>61,051</u>	<u>3,723</u>	<u>52,374</u>	<u>44,739</u>	<u>4,148</u>	<u>166,035</u>
Fund balance, end of year	<u>\$ 51,206</u>	<u>\$ 1,826</u>	<u>\$ 178,745</u>	<u>\$ 13,440</u>	<u>\$ 4,395</u>	<u>\$ 249,612</u>

# City of Fairway, Kansas

## Special Highway Fund

### Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual (Non-GAAP Basis)

For the year ended December 31, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Intergovernmental	<u>\$ 116,160</u>	<u>\$ 116,160</u>	<u>\$ 105,620</u>	<u>\$ (10,540)</u>
Expenditures:				
Public works:	<u>116,160</u>	<u>116,160</u>	<u>20,416</u>	<u>95,744</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	85,204	85,204
Other financing uses:				
Transfers out	<u>-</u>	<u>-</u>	<u>(95,049)</u>	<u>(95,049)</u>
Net change in fund balances	<u>-</u>	<u>\$ -</u>	<u>(9,845)</u>	<u>\$ (9,845)</u>
Fund balance, beginning of year			<u>61,051</u>	
Fund balance, end of year			<u>\$ 51,206</u>	

**City of Fairway, Kansas**

Alcohol and Drug Safety Action Fund

Schedule of Revenues, Expenditures  
and Changes in Fund Balance  
Budget and Actual  
(Non-GAAP Basis)

For the year ended December 31, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Fines, forfeitures and penalties	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 6,800</u>	<u>\$ (3,200)</u>
Expenditures:				
Public safety	<u>14,989</u>	<u>14,989</u>	<u>8,697</u>	<u>6,292</u>
Net change in fund balances	<u><u>\$ (4,989)</u></u>	<u><u>\$ (4,989)</u></u>	<u>(1,897)</u>	<u><u>\$ 3,092</u></u>
Fund balance, beginning of year			<u>3,723</u>	
Fund balance, end of year			<u><u>\$ 1,826</u></u>	



**City of Fairway, Kansas**

Storm Water Utility Fund

Schedule of Revenues, Expenditures  
and Changes in Fund Balance  
Budget and Actual  
(Non-GAAP Basis)

For the year ended December 31, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Ad valorem taxes	<u>\$ 122,986</u>	<u>\$ 122,986</u>	<u>\$ 126,371</u>	<u>\$ 3,385</u>
Expenditures:				
Public works:	<u>120,000</u>	<u>120,000</u>	<u>-</u>	<u>120,000</u>
Net change in fund balances	<u>\$ 2,986</u>	<u>\$ 2,986</u>	<u>126,371</u>	<u>\$ 123,385</u>
Fund balance, beginning of year			<u>52,374</u>	
Fund balance, end of year			<u>\$ 178,745</u>	

**City of Fairway, Kansas**

**L.A.L. Park Fund**

**Schedule of Revenues, Expenditures  
and Changes in Fund Balance  
Budget and Actual  
(Non-GAAP Basis)**

For the year ended December 31, 2008

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>
Revenues:				
Intergovernmental	<u>\$ 9,000</u>	<u>\$ 9,000</u>	<u>\$ 15,701</u>	<u>\$ 6,701</u>
Expenditures:				
Parks and recreation	<u>50,401</u>	<u>50,401</u>	<u>47,000</u>	<u>3,401</u>
Net change in fund balances	<u>\$ (41,401)</u>	<u>\$ (41,401)</u>	<u>(31,299)</u>	<u>\$ 10,102</u>
Fund balance, beginning of year			<u>44,739</u>	
Fund balance, end of year			<u>\$ 13,440</u>	

# City of Fairway, Kansas

## Debt Service Fund

### Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual (Non-GAAP Basis)

For the year ended December 31, 2008

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues and transfers in:				
Ad valorem taxes	\$ 81,794	\$ 81,794	\$ 81,483	\$ (311)
Transfers in	195,300	195,300	195,300	-
Total revenues and transfers in	<u>277,094</u>	<u>277,094</u>	<u>276,783</u>	<u>(311)</u>
Expenditures:				
Principal	75,000	75,000	75,000	-
Interest	209,765	209,765	209,765	-
Contingency	22,000	22,000	-	22,000
Total expenditures	<u>306,765</u>	<u>306,765</u>	<u>284,765</u>	<u>22,000</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(29,671)</u>	<u>(29,671)</u>	<u>(7,982)</u>	<u>21,689</u>
Net change in fund balances	<u>\$ (29,671)</u>	<u>\$ (29,671)</u>	<u>(7,982)</u>	<u>\$ 21,689</u>
Fund balance, beginning of year			<u>31,011</u>	
Fund balance, end of year			<u>\$ 23,029</u>	